

1 BY MR. BUTTS:

2 Q An subject to those changes do you --

3 if I were to ask you the questions contained in

4 these exhibits, would your answers be the same or

5 substantially the same?

6 A They would be substantially the same,

7 yes.

8 MR. BUTTS: At this time I offer into

9 evidence Ameritech Illinois Exhibits 9.0, 9.1,

10 9.2, and 9.3 with the Company schedules except

11 those which have been withdrawn. And I will

12 tender the witness for cross-examination.

13 AND I would also say we have made

14 some long-hand corrections. I could pass these

15 out to the parties so they can see these numbers.

16 JUDGE MORAN: Okay. Mr. Butts, I also

17 believe that you would be moving 9.0P?

18 MR. BUTTS: Yes.

19 JUDGE MORAN: 9.1P, 9.2P, all proprietary

20 records also into the record, right.

21 MR. BUTTS: That's correct. Thank you.

22 JUDGE MORAN: Are there any objections to

1 the admission of any of these exhibits as outlined
2 by Mr. Butts?

3 (No response.)

4 JUDGE MORAN: Hearing none, they will be
5 admitted.

6 (Whereupon Ameritech
7 Exhibit Nos. 9.0 thru 9.2
8 proprietary and 9.0 thru 9.3
9 Public were
10 admitted into evidence.)

11 JUDGE MORAN: We will open cross-examination.
12 This exhibit you are passing out should
13 be marked proprietary, am I correct?

14 MR. BUTTS: Yes, it is. Very much so.

15 JUDGE MORAN: Will everybody do that on their
16 copy right now.

17 MR. BUTTS: Mr. Palmer is checking the numbers.

18 MR. PALMER: Did I do it, right, no.

19 Mr. Sorenson corrected updated a LRSIC
20 cost column but forgot to update the shared cost
21 column.

22 The shared costs are going to change

1 because those are calculated by the expense factor
2 to the LRSIC.

3 So the LRSIC goes down the shared cost
4 goes down. The shared cost for access area A
5 should be reduced by 9 cents and the other issue go
6 down a dime.

7 MR. PACE: The others?

8 MR. PALMER: Ten cents.

9 MR. HARVEY: That would be proprietary?

10 MR. BUTTS: I guess I would request leave to, if
11 we could have this ready by tomorrow to late file a
12 revised exhibit, proprietary exhibit.

13 JUDGE MORAN: I think that would be wise.

14 MR. BUTTS: That has this all typed up and shows
15 the number correctly as Mr. Palmer has just
16 corrected Mr. Sorenson.

17 JUDGE CASEY: It wouldn't be late filed since
18 the record is still open, just a corrected
19 schedule.

20 MR. GOLDENBERG: While we are on that subject of
21 corrections, would it be possible to maybe get
22 errata sheets for witnesses from now on as we go

1 forward like they did for the one because otherwise
2 people who are going in and out are in a position
3 when they write their brief have to go page by
4 page?

5 JUDGE MORAN: Sure.

6 MR. GOLDENBERG: It's very difficult to go back.

7 I think it will make it easier for all
8 of us when we write our briefs to know what is
9 proprietary and what isn't, where the changes are
10 made.

11 MR. BUTTS: The exhibit will be 9.4P okay. So
12 this is 9.4P in its rough under revised form?

13 MR. BUTTS: Yeah, actually I would rip this one
14 up and not use it at all.

15 THE WITNESS: Mr. Sorenson has already corrected
16 his schedule. This should be 9.4P tomorrow will be
17 9.5P, which is a typed-up version with all the
18 corrections.

19 MR. PACE: What is 9.4?

20 MR. BUTTS: This handwritten correct which is
21 wrong.

22 JUDGE CASEY: The one you are going to hand in

1 tomorrow make it 9.4P corrected.

2 MR. BUTTS: That's great.

3 JUDGE CASEY: Thank you.

4 JUDGE MORAN: Now does someone wish to start
5 with cross?

6 MR. HARVEY: I guess so, yes.

7 CROSS-EXAMINATION

8 BY

9 MR. HARVEY:

10 Q. Mr. Sorenson, now that we are off to this
11 rising start. I'm going to ask you a few questions
12 about vertical features if I might.

13 It's your testimony or perhaps more
14 accurately Mr. Vonlehouse (phonetic) that you are
15 adopting that Ameritech enjoys high margins on
16 vertical features such as call waiting?

17 A. Yes.

18 Q. In fact, it is your testimony or Mr.
19 Vonlehouse that previous prices for certain
20 vertical features such as automatic call back are
21 higher than you believe they ought to be?

22 A. I want to say higher than they ought to be,

1 just the reason why we are proposing reductions in
2 the pay per-use features, twofold; one to offset --
3 partially offset the increase in access line
4 prices. And to get better relationship between the
5 subscription vertical feature price and the pay
6 per-use use vertical feature price.

7 Q. That's to make the subscription sort of
8 payoff a little better?

9 A. Just to -- actually it makes the pay
10 per-use more logical pricing structure rather than
11 a subscription.

12 Q. All right.

13 Now, the incremental cost in providing
14 these vertical services is pretty low, isn't it?

15 A. As I understand it.

16 Q. That would have a lot to do with why the
17 margin was pretty high?

18 A. Correct.

19 Q. Okay. So let's say the Commission is
20 ruling on this rate re-balancing proposal and
21 trying to determine whether it were revenue
22 neutral.

1 If it decided to take into account
2 increased demand for these services, the costs
3 associated with that increased demand would be
4 modest, shall we say?

5 A. Yes.

6 Q. Okay. Your testimony is that Staff Witness
7 Mark Hansen, and this will be at your rebuttal at
8 line 10. I think it may have undergone pagination
9 problems that seem to vex this case. But it is
10 your testimony that Staff witness Mark Hansen and I
11 quote, supports an increase in the residential
12 network access line price in access area B and C to
13 raise those prices of the LRSIC, is that not your
14 testimony?

15 A. Yes.

16 I am sorry could you repeat that.

17 Q. It's your testimony and we are on page 10
18 of your rebuttal that Staff witness Mark Hansen and
19 I quote supports an increase in the residential
20 network access line price in access areas B and C
21 to raise those prices to the LRSIC.

22 Now, am I correct in assuming,

1 Mr. Sorenson, that if you based your assertion,
2 this assertion you just made on Mr. Hansen's
3 statement that quote should Ameritech Illinois'
4 updated residence network access line LRSIC filed
5 in this proceeding ultimately be approved by the
6 Commission comma increase -- I guess these aren't
7 proprietary -- let's see -- certain increases would
8 be justified?

9 A. My statement in my rebuttal is based on
10 that, yes.

11 Q. Fair enough. It's not based on anything
12 else Mr. Hansen said?

13 A. Correct.

14 JUDGE CASEY: Can we take a break here a second.
15 We lost the connection to Springfield.

16 (Whereupon, there was a
17 change in reporters.)

18

19

20

21

22

1 (Change of Reporter)

2 MR. HARVEY: All right. Mr. Sorenson, again
3 with our oft-interrupted discussion, I would like
4 to talk to you if I might about nonpublished and
5 unlisted numbers, and I know you are framed as an
6 economist. So if you can put your economist hat
7 on, I understand you do get economist hats, and I
8 think we'd all like to see it.

9 And your testimony is that the
10 Commission shouldn't require Ameritech Illinois to
11 reduce or cut or eliminate all together its charge
12 to consumers who wish to have their telephone
13 numbers unlisted or unpublished, correct?

14 A. Correct.

15 Q. You base this on your contention -- I
16 assume this is your economist's contention -- that
17 to allow a large number of customers to have
18 unpublished or unlisted numbers would diminish the
19 value of the public switch telephone network
20 generally since it would in some cases make it
21 relatively more difficult for a subscriber to call
22 another.

1 Is that a fair characterization of your
2 testimony?

3 A. Yes.

4 Q. You go so far as to say, and I will quote,
5 why don't I let you turn to your rebuttal or your
6 surrebuttal first and convince yourself that I am
7 not making this up.

8 You there?

9 A. Yes.

10 Q. You go so far as to say that, quote, having
11 telephone numbers of most customers available to
12 other customers is of great, and you underscore
13 "great," social value; is that not true?

14 A. That's true.

15 Q. You do underscore "great," correct?

16 A. Yes.

17 Q. So I'm assuming that you as an economist
18 think that this is really, really important,
19 correct?

20 A. Correct.

21 Q. Okay. Now, Ameritech Illinois or one of
22 its growing number of corporate affiliates sells

1 the names and telephone numbers of subscribers to
2 persons such as, let's say, direct marketers who
3 want for whatever reason to call subscribers,
4 correct?

5 A. I don't know directly, but I would say
6 that's probably true.

7 Q. Okay. And would you agree with me that
8 Ameritech can't sell the names and phone numbers of
9 subscribers who pay not to have those names and
10 phone numbers published?

11 A. I don't know the answer to that.

12 Q. Okay. Let's assume hypothetically that
13 what I am saying here is true. Okay?

14 Assuming hypothetically that Ameritech
15 Illinois does sell the names of subscribers to
16 direct marketers and isn't allowed to sell the
17 names of people who have unlisted numbers to direct
18 marketers. Hypothetically, it's -- the list of
19 subscribers they could sell would probably have
20 materially less available to those direct
21 marketers, wouldn't they?

22 A. Hypothetically, yes.

1 Q. Okay. And assuming all these things to be
2 true, it would probably realize relatively less
3 money from the sale of those subscribers to direct
4 marketers, correct?

5 A. Hypothetically with less value, yes.

6 Q. Okay. That's fair.

7 Now, Ameritech runs a directory
8 assistance operation?

9 A. Yes.

10 Q. And I believe the going rate now for
11 directory assistance is 95 cents a call, isn't it?

12 A. I believe that's correct.

13 Q. Now, let's assume hypothetically that --
14 let's not even assume it hypothetically.

15 To the extent that the public becomes
16 aware that Ameritech is in possession of relatively
17 fewer listed or published numbers, there might be
18 relatively less demand for this service as well,
19 would there not?

20 A. Only after probably a long time when people
21 have repeated calls to the service not being able
22 to get the numbers, but that would probably take a

1 long period of time.

2 Q. But nonetheless, once a customer calls a
3 few times and says -- gets that number is not
4 published or listed, they are very likely to stop
5 calling directory assistance, correct?

6 A. I would agree with that.

7 Q. Okay. Now, Ameritech also sells a product
8 called privacy manager, correct?

9 A. Correct.

10 Q. And this product is sold -- Ameritech sells
11 this to people based on the fact that privacy
12 manager effectively prevents the subscriber's phone
13 from ringing in the event that the person placing
14 the call doesn't permit the call to be identified
15 in the sense of Caller ID?

16 A. Correct.

17 Q. Okay. And we can agree that that would be
18 the case with, for example, direct marketers?

19 A. Most likely.

20 Q. Okay. So that if people perceive the
21 telemarketing is less of an irritant in their daily
22 lives, perhaps they might -- there might be a

1 reduced demand for call -- for privacy manager,
2 might there?

3 A. I would agree with that.

4 Q. Okay. Now, this is all in addition to the
5 fees that Ameritech Illinois charges to customers
6 who want their numbers to be nonlisted or not
7 published, correct?

8 A. Correct.

9 Q. And what is that fee, just so I know?

10 A. I will have to check my -- let's see -- I
11 don't know offhand the exact number nor where in
12 the book, but it's less than \$2 I believe for --

13 Q. A year, a month?

14 A. Month.

15 Q. So two clams a month for unpublished.

16 Is it the same for unlisted?

17 A. It is less.

18 Q. Okay.

19 A. And I believe approximately the nonpub is
20 in the range of \$1.50, give or take 25 cents, and
21 the nonlisted is in the range of 90-some cents.

22 Q. Okay. Now, we can agree that requiring --

1 that all of these fees I've -- and products I've
2 described or hypothetically described would, if
3 what I am say is something pretty well correct,
4 have significant benefits for Ameritech Illinois as
5 well as for the greater society, correct?

6 A. Can you restate that? I am sorry.

7 Q. I will withdraw that question and try it
8 again.

9 I've just described a number of
10 either -- of services and products either
11 hypothetically or not that Ameritech Illinois would
12 realize a substantial revenue from, correct?

13 A. Correct.

14 Q. And each of these products and services is
15 at least to some degree dependent upon Ameritech
16 Illinois retaining a large number of subscribers
17 who are unwilling to have their numbers unpublished
18 or unlisted, correct?

19 A. Correct.

20 Q. So to the extent that a significant number
21 of people have their -- don't take advantage of
22 having their numbers unpublished or unlisted,

1 Ameritech Illinois makes a bunch of money; fair
2 enough?

3 A. Makes some money, yes.

4 Q. And it would make less money if relatively
5 more people could get their numbers unlisted or
6 unpublished?

7 A. Holding everything else constant, yes, I
8 agree with that.

9 Q. And certainly more people would -- it would
10 be fair to characterize your testimony as stating
11 the proposition that, when you lower the cost
12 associated with having an unlisted or unpublished
13 number to -- the number of customers who elect to
14 do that is likely to increase, correct?

15 A. Correct.

16 Q. Okay. So I guess we can agree then and
17 Mr. Butts may well want to give me an asked and
18 answered, but I think we can agree to the extent --
19 I will withdraw that.

20 We can agree that Ameritech Illinois has
21 a significant financial interest in, shall we say,
22 maintaining control over the number of numbers that

1 are unlisted or unpublished , correct?

2 A. That's correct, like we have a financial
3 interest in all the rates that we are proposing
4 reductions or increases to, yes.

5 Q. And actually interests that go somewhat
6 beyond the charge for unlisted and unpublished
7 numbers. Would that be fair?

8 A. That would be fair.

9 Q. I would move on to one other quick line
10 here.

11 It's your testimony, Mr. Sorenson that
12 discounts should be targeted -- I will withdraw
13 that and ask you to go to your rebuttal at 15 since
14 I am quoting you. I think you ought to have the
15 chance to see if I am doing it right.

16 A. Got it.

17 Q. Okay. Rebuttal at 15, it's your testimony
18 that -- and I quote, discounts should be targeted
19 to customers who are, quote, involved in their
20 service seeking a lower rates or simplified rate
21 structures, end quote; is that correct?

22 A. That's correct.

1 Q. So we can agree that your proposal
2 essentially doesn't target those same involved
3 customers for all of the rate increases, right?

4 A. (No response.)

5 Q. Well, let me withdraw that. That was
6 inartful. I will try to put this another way.

7 You obviously want the discounts
8 targeted to the -- we are going to call them for
9 the time being the involved customers?

10 A. Okay.

11 Q. But the rate increases that you propose
12 aren't all going -- flowing towards those
13 customers; is that fair?

14 A. The rate increases we have proposed are
15 going to all of the customers, all the residence
16 customers.

17 The increase we have is the access line
18 price which would affect --

19 Q. All customers?

20 A. -- all customers.

21 Q. But I guess what I am saying is customers
22 other than the involved customers would also pay

1 that increase in access lines?

2 A. That's true.

3 Q. Okay. And we can agree that your proposal
4 is revenue neutral only in the aggregate as to
5 individual customers that may -- their benefits or
6 detriment may vary some?

7 A. That's correct.

8 Q. And we can agree that many customers will
9 suffer a net adverse result of your rate
10 rebalancing proposal should we adopt it?

11 A. Some customers might notice an adverse
12 effect, yes.

13 Q. Okay. Now, under your proposal, the
14 customers who will break even or benefit from the
15 rate decreases will be customers who use a lot of
16 vertical services, correct?

17 A. Correct, the pay per views vertical
18 services, yes.

19 Q. And/or customers who make a relatively
20 large number of band B calls?

21 A. Correct.

22 Q. Or have a line installed?

1 A. Correct.

2 Q. Okay. So would it be fair to say that,
3 when you use the terms customers who are involved
4 with their service, you mean customers who in most
5 cases use vertical services or make lots of toll
6 calls?

7 A. No. What I am meaning by "involved" and
8 the reason for this discussion was related to the
9 automatic volume discount where, when given a
10 list -- if we are required to make reductions, we
11 prefer not to affect the buying -- automatic volume
12 discount because, as it says, it's automatic. No
13 matter what the customers does, it's applied.

14 Our preference is that we target our
15 discounts to those customers, like I said, who
16 really get involved with their telephone service,
17 look at their bills, and for those customers who
18 call up saying what can you do to improve or I've
19 got a competitive offer, we wants to target our
20 most discounted plans to those people.

21 Q. So we are talking about calling plans here?

22 A. Correct.

1 Q. Okay. So I think I probably misunderstood
2 the way you were using -- you were using "involved
3 customer" but let me go on. Maybe it doesn't make
4 any difference.

5 Now, vertical services and band B
6 services have relatively high profit margins, don't
7 they?

8 A. Yes.

9 Q. Okay. So to the extent you are targeting
10 rate decreases in your rate rebalancing proposal,
11 you are targeted to I guess what we can call high
12 margin customers, right?

13 A. High margin to those products. I mean, a
14 particular customer could have some products that
15 are low margin and also are high users of other
16 products that are high margin. I guess you would
17 have to refine that definition of high margin
18 customer.

19 Q. Okay. I will try to do that. Let's do as
20 we've so often done in this proceeding. Hold all
21 else equal. Can we do that?

22 And assuming that you've got a customer

1 that doesn't use the network a whole lot, makes a
2 few band A calls and not band B calls. That would
3 be a relatively lower margin customer for Ameritech
4 Illinois than a customer who made a lot of band
5 A -- a lot of band B calls, got Call Waiting, Call
6 Forwarding, Automatic Call Back and whatever that
7 Star 69 thing is, right? That would a higher
8 margin customer, wouldn't it?

9 A. Yes.

10 Q. Now, with your economist hat on here, would
11 you agree that that would be precisely the group of
12 customers whose business would be competed for a
13 lot once the residential network gets really opened
14 to competition?

15 A. I guess I would say those are higher valued
16 customers with respect to margin. To what extent
17 the competition, if they had information on their
18 services, I am sure would compete for, but --

19 Q. Let me ask you this: If you were -- let's
20 say you decide to -- for whatever reason to go to
21 work for a competitive LEC tomorrow after going
22 through another one of these proceedings and

1 realizing this is just too horrible to contemplate
2 so you would work competitive LEC, which customers
3 would you go after?

4 A. If I knew certain customers had certain
5 products ahead of time, those customers with a lot
6 of vertical services and usage would be those that
7 I'd go after, but a lot of competitors don't know
8 that.

9 Q. Okay. Some of them do?

10 A. Only probably through getting them as a
11 customer, and if they leave them, they would at
12 least know that information while they were their
13 customer.

14 Q. Or they might find it out through providing
15 long-distance service perhaps?

16 A. Perhaps.

17 Q. Okay. And those are the customers that are
18 really getting the benefit of the rate balancing
19 you propose, aren't they?

20 A. Yes, a lot of usage and vertical service
21 would see the largest reduction.

22 Q. Now, on the other hand, we've got our sort

1 of no-account customer that I described to you,
2 doesn't make very many band B or C calls and
3 doesn't buy any vertical service, our low margin
4 customer.

5 Now, when the residential network gets
6 opened up to competition, that customer is probably
7 going to be pretty well out of the hole, right,
8 based upon what we talked about?

9 A. I think, as you stated prior, that the
10 companies go after the -- their own long-distance
11 customers that they have today is the prime
12 objective for trying to provide full service to
13 that customer, and while, like I said, they
14 probably don't know if they make a lot of local
15 calls or a lot of vertical services or not, but
16 they probably target their competitive win efforts
17 at those high long-distance customers.

18 Q. And we can agree that there might very
19 easily be correlation between people who use a lot
20 of long distance and a lot of local, right?

21 A. Actually what I have seen in comparing long
22 distance usage to say intralata toll usage, that

1 they are a negative correlation, that people with a
2 lot of high long distance actually have low
3 intralata toll and vice versa.

4 Q. That's fair enough. I learn something new
5 every day.

6 But in any case, we can agree that --
7 let's just move into the nirvana of competition
8 some years in the future where this information is
9 widely available to people. Customers who don't
10 use the network very much and who don't make very
11 many band B, C, long-distance, vertical services
12 use, they are not going to be the cream of the crop
13 customers that everybody wants, right?

14 A. With full information, yeah.

15 Q. Okay. Now, and basically that is the group
16 of customers that your rate balancing proposal
17 would most adversely affect, correct?

18 A. And, again, it's not only what they are
19 doing today, but if we reduce the price of band B
20 usage, vertical services, they may become more
21 attractive to those customers, and they may now
22 have the opportunity to use those services at lower

1 prices.

2 So even though, based on historical
3 usage, I would agree with that, I don't know what
4 that's going to do for the future.

5 Q. We don't know what that's going to do in
6 the future, but we do know generally if we've got a
7 customer whose history is pretty generally not
8 using a whole lot of services, that's not a
9 customer that you are going to go, we've got to
10 keep this one? You know, is that fair?

11 A. Well, I would say it's fair that, in full
12 competition, competitors might not expend a lot of
13 resources trying to win that customer.

14 Whether your statement someone we don't
15 want to keep --

16 Q. Would you spend a lot of resources winning
17 that customer back?

18 A. Relative to other customers, no.

19 Q. Okay. Now, as I've asked you before -- so
20 I guess we can perhaps agree that those are the
21 customers that may have fewer competitive choices?

22 A. I wouldn't say they have fewer competitive

1 choices. Everybody has the same amount of
2 competitive choices.

3 Q. Those won't be the customers whose -- whose
4 plans are -- bundled plans are targeted to;
5 wouldn't that be fair?

6 A. I was responding to whether they hav the
7 same competitive choices.

8 Q. And you were absolutely right to do that.

9 A. Could you restate the question?

10 Q. Why don't I withdraw the whole question and
11 try to put it a little bit more artfully.

12 The customers we've just described that
13 don't use a lot of services and don't use the
14 network a whole lot will not be the ones that are
15 sought after by competitors, correct, in our sort
16 of ideal world of full information?

17 A. I would agree with that.

18 Q. And so we can agree that they will have
19 relatively fewer choices than --

20 A. They might be sought after at a lesser
21 degree, but they would still have the same
22 opportunities.

1 Q. Now, you are an economist, Mr. Sorenson?

2 A. Yes.

3 Q. And you are familiar with the concept of

4 Ramsey pricing?

5 A. Yes.

6 Q. Now, let me see if you accept this as a

7 definition of Ramsey pricing: A situation where

8 larger markups are charged for services purchased

9 by the customers that are the least likely to

10 change their behavior.

11 A. I would agree with that.

12 Q. And the customers that are least likely to

13 change their behavior based on a price change are

14 described by economists as having the least elastic

15 demand for a product?

16 A. Correct.

17 Q. Okay. And essentially those are the

18 customers that Ameritech is proposing to sort of

19 bear the brunt, if you will, of its rate

20 rebalancing proposal; isn't that true,

21 Mr. Sorenson?

22 A. I wouldn't classify it as bearing the

1 brunt.

2 Q. Let's say benefiting the least. How about
3 that?

4 A. Under historical patterns, yeah, they would
5 probably see the less benefits of the plan.

6 Q. And, in fact, they might actually see
7 increases in their rate?

8 A. Some of them would see some modest
9 increases.

10 Q. By modest we mean \$2, don't we?

11 A. That would be correct if they have no other
12 usage and they have no long-distance usage because
13 there are switched access reductions as well.

14 Q. So let's say a customer like me that
15 doesn't really use the network, the poor bachelor
16 rate. I am the dim-wit bachelor who doesn't pay
17 any attention to his service rate. I am going to
18 take pretty much of a hit on this, aren't I,
19 Mr. Sorenson?

20 A. I agree that various customers will see
21 various levels of benefit or increase in rates.

22 Q. Okay. So we are talking about an increase

1 in rates here to a significant group of customers?

2 A. I wouldn't say significant. I don't have a
3 number of what percentage would do it, but I would
4 not think it would be large. It would not be
5 large.

6 Q. Do you have any idea what it would be?

7 A. I have not done that analysis.

8 MR. HARVEY: Well, I think that's all I have for
9 you, Mr. Sorrentino.

10 I thank you for your patience.

11 JUDGE MORAN: Who's next?

12 (Discussion off the record.)

13 JUDGE MORAN: Is there any other cross?

14 All right. Redirect?

15 MR. BUTTS: Yeah. Could we have --

16 MS. LUSSON: Good afternoon, Mr. Sorenson. My
17 name is Karen Lusson.

18 JUDGE CASEY: Could you please get your
19 microphone a little closer.

20 MS. LUSSON: I am here on behalf of Citizens
21 Utility Board.

22

1 CROSS EXAMINATION

2 BY

3 MS. LUSSON:

4 Q. I understand you updated your Schedule 9.0

5 Schedule 2 --

6 A. Yes.

7 Q. -- in response to a change Mr. Palmer made.

8 For purposes of my question, though, I

9 am holding the earlier exhibit.

10 If you can turn your attention to the

11 second to the last column marked "total"?

12 A. Yes.

13 Q. On the bottom figure, I won't state it

14 because I understand -- well, that's what I want to

15 get at.

16 Mr. Palmer indicated in response to some

17 questions that, in fact, when you compute the

18 average of costs listed for access area lines A, B

19 and C that the statement of the average does not

20 reveal the individual cost components for each of

21 those line categories.

22 Were you in the room when he indicated

1 that?

2 A. I was.

3 Q. Okay. And Mr. Palmer also indicated that
4 you had applied weighted averages to compute the
5 average that's listed on his schedule; is that
6 correct?

7 A. That's correct.

8 Q. And, in fact, that last line that appears
9 in bold and in that second to last column, are
10 those the average amounts?

11 A. Those are the weighted average amounts.

12 Q. And do you have the ability today to
13 indicate what weighted averages you applied to come
14 up with that bottom figure in the second to last
15 column?

16 A. You would apply the number of access lines
17 in each of the areas like, for example, you apply
18 the number of access lines in area A times the cost
19 in area A, the lines in B times the cost of B, the
20 lines in C times the cost in C and divide that all
21 by the total number of lines.

22 MS. LUSSON: Thank you very much, Mr. Sorenson.

1 JUDGE CASEY: Any reredirect or redirect now.

2 MR. BUTTS: I do have, if I may just have two or
3 three minutes.

4 (Recess taken.)

5 (Discussion off the record.)

6 REDIRECT EXAMINATION

7 BY

8 MR. BUTTS:

9 Q. Mr. Sorenson, Mr. Harvey asked you a series
10 of questions related to the fact that, if listing
11 non -- nonlist and nonpub listing charges are
12 eliminated and more people elect to not list their
13 names and numbers in the directory and the
14 directory assistance that the company would lose
15 revenues from other services it provides; is that
16 correct?

17 A. That is correct.

18 Q. And in effect what he is suggesting is
19 there would be a cross-elastic effect to
20 eliminating those directory charges?

21 A. Correct. So if we were to include in our
22 rate design, not only would we have to take account

1 for the reduction in that -- those services, the
2 nonlist and nonpub but also account for those
3 reductions in revenues and all those other services
4 related to that.

5 Q. Now, at the same time that he was asking
6 you questions about the revenue effects or the
7 cross-elastic revenue effects of eliminating
8 listing nonpub and nonlist charges, does any of
9 that detract from the statement that you made in
10 your testimony that there is high social value from
11 having listing information available to telephone
12 users?

13 A. It does not detract from that statement.
14 In and of itself, the availability of numbers -- of
15 listed numbers is still a benefit to all.

16 Q. There was also some discussion with
17 Mr. Harvey about the perception that the offsetting
18 rate reductions that the company is proposing in
19 its rate rebalancing plan seemed to be targeted
20 towards high margin customers as opposed to low
21 margin customers who basically have an access line
22 and very little usage -- customers like Mr. Harvey?

1 A. Yes.

2 MR. HARVEY: Friendless ones I think

3 Mr. Butts --

4 BY MR. BUTTS: Q. Does the company consider that
5 to be inappropriate, and if not, why not?

6 A. Historically those customers with little
7 usage or vertical services, i.e. the low margin
8 customers, we've classified historically, they have
9 not been contributing to recovery of common costs,
10 for example, whereby those customers with a lot of
11 high margin services have been contributing a
12 substantial share to that. In fact, these
13 customers who have the high amount of usage have
14 actually been supporting these customers with --
15 the low margin customers historically.

16 So our proposal is to try to even that
17 out more, these low margin customers to pay a
18 larger share of that contribution relative to the
19 high margin customers.

20 Another point with that, as we stated,
21 that these high margin customers would be most
22 attractive to competitors such that, if we don't

1 rebalance the recovery, that as we lose more and
2 more of those high volume customers that that
3 contribution will disappear that those customers
4 are generating at a faster rate thereby leaving us
5 with less recovery of those costs.

6 Q. And if you are not recovering your costs,
7 costs from high margin customers, then what's the
8 alternative?

9 A. The alternative would be from the low
10 margin customers.

11 JUDGE CASEY: Recross?

12 MR. HARVEY: I think I can get by with two
13 questions.

14 RE CROSS EXAMINATION

15 BY

16 MR. HARVEY:

17 Q. You finally explained a cross -elastic
18 effect in a manner that I understand. So I owe you
19 something.

20 But in any case, the cross -elastic
21 effect between not having your service listed -- a
22 relatively larger number of people having unlisted

1 or unpublished numbers and the decline in other
2 services. We can agree that to the extent those
3 other services are competitive or outside the rate
4 cap, you wouldn't have to take that into account in
5 this proceeding?

6 A. Well, in this proceeding, our position is
7 that we are addressing the noncompetitive services.
8 So to that extent, I would agree with that
9 statement, but to the extent that they are included
10 in the basket of noncompetitive, you have to take
11 account for that.

12 Q. And just so I understand this -- I think
13 you answered that question fairly -- I won't --
14 now, one other question, if I might, Mr. Sorenson.
15 Mr. Butts just asked you a question having to do
16 with the loss of relatively high margin customers.

17 And your testimony was, if I remember
18 correctly, that the loss of high margin customers
19 would result in a loss of customers who would
20 traditionally be doing more than their fair share
21 of contribution to the shared and common costs of
22 the network.

1 Is that a fair characterization of what
2 was said?

3 A. Yes.

4 Q. There would be other more compelling
5 business reasons not to lose those customers,
6 wouldn't there, Mr. Sorenson?

7 A. Yes. We are in a business to maximize our
8 earnings, and those are the customers we want to
9 keep, yes.

10 Q. So you are not trying to keep these
11 customers so that you can continue to subsidize
12 other customers because of sheer altruism. You
13 just want those customers, right, for whatever
14 reason?

15 A. For logical business reasons, I don't
16 disagree.

17 Q. Okay. Thank you very much, Mr. Sorenson.

18 JUDGE CASEY: Reremedy?

19 MR. BUTTS: No.

20 JUDGE MORAN: Thank you, Mr. Sorenson. You are
21 excused.

22 (Witness excused.)

1 MR. BUTTS: Thank you very much.

2 Can we perhaps gets a sense of how much

3 further we are going to go tonight?

4 JUDGE CASEY: We are going until 6:00 o'clock

5 or so.

6 MR. BUTTS: Or 7:00?

7 MS. LUSSON: Mr. Smith does have to catch a

8 flight tonight.

9 JUDGE CASEY: Mr. Smith is next?

10 MS. LUSSON: He's next.

11 (Discussion off the record.)

12 (Whereupon, GCI Exhibit 6.0, 6.1,

13 6.2, 6.2 PJM, 6.3, 6.4, 6.5, 6.5

14 PJM and 6.6 were marked for

15 identification.)

16 RALPH C. SMITH,

17 called as a witness herein, having been first duly

18 sworn, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY

21 MS. LUSSON:

22 Q. Mr. Smith, will you please state your name

1 and business address for the record?

2 A. Ralph Smith, 15728 Farmington Road,
3 Livonia, Michigan 68154.

4 Q. Mr. Smith, you have before you an exhibit
5 that's marked 6.0 which consists of the direct
6 testimony of Ralph C. Smith and appendix listing
7 your qualifications and schedules which have been
8 marked GCI Exhibit 6.1.

9 Was that testimony and exhibits prepared
10 by you or under your supervision?

11 A. Yes.

12 Q. And do you have any changes to make to
13 Exhibit 6.0?

14 A. We've passed out an errata sheet. There
15 were two numbers that changed two places in the
16 testimony.

17 Q. Okay. And that's indicated on the third
18 page of this errata sheet?

19 A. Yes.

20 Q. And any changes to your schedules marked
21 6.1?

22 A. No changes. Some of them have been

1 superceded by later versions of the schedule.

2 Q. You also have before you an exhibit marked
3 GCI Exhibit 6.2 which consisted of the rebuttal
4 testimony of Ralph C. Smith and Exhibit 6.3 which
5 are schedules which are being replaced, as I
6 understand it, with 6.5 and also attached to that
7 is Exhibit 6.4 which consists of citations from
8 appellate court opinion.

9 Do you have those?

10 A. Yes.

11 Q. And were those exhibits prepared by you or
12 under your supervision?

13 A. Yes.

14 Q. And with respect to your direct and your
15 rebuttal testimonies, if I ask you the same
16 questions today that appear therein, would your
17 answers be the same?

18 A. Yes, they would.

19 Q. And turning your attention to an Exhibit
20 6. -- GCI Exhibit 6.5 which has been marked the
21 revised rebuttal schedules, do you have that before
22 you?

1 A. Yes.

2 Q. Now, is it correct that GCI Exhibit 6.5
3 is a -- schedule is replacing your Exhibit 6.3
4 which were schedules for rebuttal testimony?

5 A. Yes. There were some changes that were
6 noted subsequent to the preparation of the rebuttal
7 testimony, and those were provided to the parties,
8 and Exhibit 6.5 attempts to provide a complete set
9 of all the schedules based on our current numbers.

10 Q. Okay. And is it correct that Exhibit 6.5
11 has revisions to Schedule E-3, E-5, E-15, and E-18?

12 A. The schedules you just mentioned were the
13 adjustment schedules that were changed?

14 Q. Yes.

15 A. And when those changes flowed through, they
16 affected some of the summary schedules as well.

17 Q. Would those schedules be E, C and A?

18 A. Yes.

19 Q. And can you just note for the record what
20 change was made to Schedule E-3?

21 A. On Schedule E-3, E-5 and E-15, I corrected
22 the adjustment amounts to reflect one year of a

1 five-year amortization.

2 Q. Okay. And can you explain the change to
3 Schedule E-18 and why that was made?

4 A. A change was made to essentially withdraw
5 the reciprocal compensation expense on Schedule 18
6 after the company provided some corrected
7 information that changed information it had
8 previously provided in response to data requests.

9 Q. And was that information provided by the
10 company after the filing of your rebuttal
11 testimony?

12 A. Yes.

13 Q. And finally, Mr. Smith, I will show you
14 what is being marked as GCI Exhibit 6.7 -- I am
15 sorry -- 6.6.

16 And is that the corrections to the
17 rebuttal testimony of Ralph C. Smith and also the
18 third page corrections to Ralph Smith Direct?

19 A. Yes. There are three pages.

20 The first page is an errata for my
21 rebuttal testimony.

22 The second page is a reproduction of

1 Page 3 of my rebuttal testimony. The numbers in
2 the table on that page between lines 15 and 16 have
3 changed. So I'm just providing a current version
4 of that particular table.

5 And the third page are the corrections
6 to my direct testimony.

7 MS. LUSSEN: And just so the record is clear, we
8 are marking --

9 JUDGE MORAN: This is being marked?

10 MS. LUSSEN: GCI Exhibit 6.6 and we tender
11 Mr. Smith for cross-examination.

12 JUDGE MORAN: Are there any objections to the
13 admission of GCI 6.0, 6.1, 6.2, 6.3, 6.4, 6.5 and
14 6.6?

15 JUDGE CASEY: What's 6.1?

16 MS. LUSSEN: 6.1 are the direct schedules
17 attached to Mr. Smith's direct testimony. They are
18 stapled onto Exhibit 6.0.

19 JUDGE MORAN: And 6.2 is that testimony?

20 MS. LUSSEN: Yes.

21 JUDGE MORAN: That's the rebuttal testimony?

22 MS. LUSSEN: Right.

1 JUDGE MORAN: And 6.3 --

2 MS. LUSSEN: Where the rebuttal schedules which

3 have been withdrawn and replaced with 6.5.

4 JUDGE MORAN: So 6.3 is a separate schedule that

5 is pretty much -- that has everything that's in

6 6.5?

7 MS. LUSSEN: Except for the changes that

8 Mr. Smith identified. So we -- just for the

9 convenience sake, we just redid the schedules that

10 were 6.3.

11 JUDGE CASEY: So we don't need to have 6.3?

12 MS. LUSSEN: 6.3.

13 MS. LUSSEN: That's being withdrawn.

14 JUDGE MORAN: So you are withdrawing 6.3?

15 MS. LUSSEN: That's why the jump is from 6.2 to

16 6.4.

17 MR. ANDERSON: What is 6.4?

18 MS. LUSSEN: 6.4 is an attachment to 6.2 which

19 is the citation from the appellate court opinion.

20 JUDGE MORAN: Oh.

21 MR. ANDERSON: I see. Okay.

22 JUDGE MORAN: 6.4 is the appellate court

1 opinion.

2 MS. LUSSON: It's an excerpt from the appellate
3 court opinion. It's attached to your 6.2.

4 MR. ANDERSON: I follow.

5 JUDGE MORAN: Now, are there any objections to
6 the substance of these exhibits?

7 MR. ANDERSON: We have all kinds of objections
8 to the substance. But we won't object to the
9 admission.

10 JUDGE MORAN: I mean as opposed to discovery.

11 MR. ANDERSON: If I understand what's going on,
12 the question is whether we object to 6.0, 6.2, 6.3
13 and that 6.3 is not being offered into evidence?

14 JUDGE MORAN: And 6.6 is really --

15 MR. ANDERSON: The errata sheet.

16 We have no objection.

17 MS. LUSSON: Before Mr. Anderson begins, I want
18 to note for the record it's my understanding that
19 Illinois Bell is stipulating to the fact that
20 Mr. Smith had a conversation with Illinois Bell
21 Telephone employees Bob Reiter and Jim Degnan
22 regarding Mr. Smith's adjustment for accumulating

1 deferred income taxes.

2 I mention this because I was going to
3 introduce an Exhibit 6.7 which was a fact that
4 Mr. Smith received from Mr. Reiter during the
5 discussions, and the reason I was going to
6 introduce that was because during the cross of
7 Mr. Dominack (phonetic), when I asked him whether
8 he had any specific knowledge of those
9 conversations, he indicated he did not.

10 Mr. Anderson and I have discussed this,
11 and he indicated just --

12 JUDGE MORAN: So you are going to stipulate that
13 there was --

14 MR. ANDERSON: That's substantially correct. I
15 would note I do not know and -- that the
16 conversation was specifically directed to
17 Mr. Smith's adjustment.

18 I believe the conversation may have
19 occurred before the testimony with the adjustment
20 being referred to was presented.

21 I will stipulate that Mr. Reiter, by the
22 way, wasn't a company employee but was a former

1 company employee and was a consultant in connection
2 with this case, did have a conversation with
3 Mr. Smith regarding the subject of accumulated
4 deferred income taxes and that Mr. Degnan, who is
5 an employee, was a participant in that discussion.

6 JUDGE CASEY: We are going to go off the record
7 right now.

8 (Discussion off the record.)

9 JUDGE CASEY: Go back on the record.

10 MS. LUSSON: I have amended what's been marked
11 GCI Exhibit 6.7.

12 BY MS. LUSSON: Q. Can you state for the record
13 what this is?

14 A. This is a fax I received from Mr. Reiter.

15 It was sent on December 21st, and it
16 also refers back to a phone discussion we had had
17 on November 28th.

18 The topics of these discussions was the
19 company's balance of accumulated deferred income
20 tax in rate base and in particular 97.616 million
21 of a debit balance item for merger issues. It
22 followed up on their response to CUB Data Request

1 13.11 wherein they indicated that included within
2 the 97.616 million were two items that they could
3 identify of these merger issues of a \$60 million
4 item related to competitive declaration and a \$21
5 million item for allowance for delinquent (phonetic)
6 accounts.

7 Not to belabor this point, because it's
8 late in the day, but the end result of the
9 conversations was that we agreed that the company
10 had removed -- of the 97.616 million, the company
11 had removed 57.464 million, and that amount can be
12 verified by this fax by taking the difference
13 between the two numbers.

14 So that left approximately 40 million of
15 debit balance in rate base for merger issues in the
16 accumulated deferred income tax balance, and of the
17 \$21 million item related to allowance for delinquent
18 accounts, it was agreed that approximately 1
19 million of that was related to nonregulated and
20 approximately 3 percent would be interstate,
21 leaving approximately 19 to \$20 million of that
22 remaining in rate base on Mr. Dominack's Schedule

1 2, and that amount is the amount I removed in my
2 adjustment which is discussed at Pages 18 through
3 20 of my rebuttal testimony, and I believe that's
4 the proper amount to be removed from rate base.

5 MR. ANDERSON: Mr. Hearing Examiner, Ms. Hearing
6 Examiner, at this time I didn't interrupt, but I do
7 object. I view this as additional direct
8 testimony.

9 I was approached by Ms. Lusson before
10 the hearing and asked whether I would stipulate
11 that Mr. Smith had a conversation with Mr. Reiter.

12 Ms. Lusson indicated that she wanted to
13 put this exhibit in for the sole purpose of
14 indicating that there was a conversation.

15 I indicated to Ms. Lusson that I had no
16 objection to stipulating on the record that there
17 was a conversation.

18 I do not know whether this document, for
19 example, is the sole information provided to
20 Mr. Smith, whether there were follow-up responses
21 along this line, but basically my objection to the
22 additional oral direct testimony is that it's

1 exactly that.

2 I don't believe it's appropriate. So I
3 would object and move to strike the testimony
4 that's just been given orally.

5 MS. LUSSON: Well, this -- what Mr. Smith just
6 indicated for the record is that it's precisely
7 what's contained in his rebuttal testimony at Pages
8 18 through 20 when he discusses this adjustment.

9 The problem with not -- the situation
10 that caused this additional direct is that, during
11 the cross-examination of Mr. Dominack, when I asked
12 him about the conversations Mr. Smith had with
13 these Illinois Bell employees or consultants, he
14 indicated that he had no knowledge of them. And
15 this was something that specifically had been
16 arranged during the discovery process and in
17 preparation of testimony.

18 So needless to say, it took us by
19 surprise when Mr. Dominack testified that he had no
20 knowledge of these. And considering the fact that
21 Mr. Reiter -- he indicated then that Mr. Reiter is
22 a retired Bell employee. It became clear to me I

1 was not going to be able to call Mr. Reiter to the
2 stand probably, and this seemed to be the easiest
3 way to deal with that situation.

4 JUDGE MORAN: But it's more than your intent to
5 show that there was a conversation, right? That's
6 not --

7 MS. LUSSON: To the extent that this shows more
8 than a conversation, I would submit that this is
9 primarily discussed or referred to in Mr. Smith's
10 rebuttal testimony at Pages 18 through 20.

11 MR. ANDERSON: There may well be a discussion of
12 it in Mr. Smith's testimony, and we haven't
13 objected to the admission of Mr. Smith's prepared
14 testimony, and we haven't disagreed that there was
15 a phone conversation.

16 I am just objecting to putting in
17 additional oral testimony on the issue at this
18 time.

19 MS. LUSSON: I would just add -- this is the
20 final thing I will say on this, is that the
21 collaboration seems to be in order, given the fact
22 that Mr. Dominack testified that he had no

1 knowledge or recollection of these conversations
2 taking place and that this is what -- these
3 statements were what -- this information was what,
4 in fact, these fellow employees or consultants
5 provided to Mr. Smith.

6 JUDGE CASEY: Do you object to the admission of
7 the facts?

8 MR. ANDERSON: I don't object for the purpose of
9 showing that there was a conversation with
10 Mr. Reiter and -- between Mr. Reiter and Mr. Smith.

11 I object I guess -- I don't know what
12 this is supposed to show. It seems to me it may be
13 one part of a series of pieces of information that
14 may have flowed back and forth to Mr. Smith. Quite
15 frankly, I don't know.

16 I have no objection to admitting it for
17 the purpose of showing there was a conversation.

18 JUDGE CASEY: What you do object to is the oral
19 testimony given today?

20 MR. ANDERSON: Right, regarding the significance
21 of the document. That's what I object to.

22 JUDGE CASEY: It's the Examiner's ruling that

1 the Exhibit 6.7 will be admitted.

2 (Whereupon, GCI/City Smith
3 Exhibit No. 6.7 was
4 admitted into evidence as
5 of this date.)

6 JUDGE CASEY: The additional testimony, oral
7 testimony, given by the witness will be stricken.

8 As a house-cleaning matter, Ms. Lusson,
9 the exhibits are entitled GCI. The City joined in
10 it -- in these exhibits?

11 MS. LUSSON: Yes.

12 JUDGE CASEY: So this would be a GCI and City?

13 MS. LUSSON: Yeah, all of them.

14 JUDGE MORAN: Are they marked that way?

15 MS. LUSSON: No. We'll have to mark them.

16 (Whereupon, GCI/City Smith
17 Exhibit

18 6.7 was marked for
19 identification.)

20 JUDGE CASEY: Is there anything else,
21 Ms. Lusson?

22 MS. LUSSON: No.

1 JUDGE CASEY: It's been a while since Mr. Smith
2 first got on the stand, but I don't recall if all
3 his exhibits were admitted by the Examiners.

4 MS. LUSSON: I think all except 6.7 which I
5 would also move for the admission.

6 JUDGE CASEY: I admitted that one. Okay.

7 Then cross-examination?

8 MR. ANDERSON: Yes. We do have some
9 cross-examination.

10 CROSS EXAMINATION

11 BY

12 MR. ANDERSON:

13 Q. Mr. Smith, you made some changes to the
14 schedules which you had prefiled with your
15 rebuttal.

16 Just to clarify, I don't know -- did you
17 make any changes to the text of the testimony other
18 than the table which appears at Page 3 of your
19 testimony?

20 Were there any additional changes that
21 were made in the body of the testimony as opposed
22 to the schedules?

1 A. I think some of the other numbers on Page 3
2 changed. On Line 14, the 956 billion number. On
3 Line 17, the 28.49, and on Line 18, the 43.08.

4 Q. Okay. And what would -- those are all on
5 Page 3, correct?

6 A. Yes.

7 Q. The numbers you just read?

8 I take it this revised Page 3 with the
9 revised numbers which is attached at Page 2 of
10 Exhibit 6.6 reflects your view of the correct
11 numbers on Page 3?

12 A. Yes.

13 Q. So the record is clear, these numbers
14 substitute for what's on Page 3 of Exhibit 6.2,
15 correct?

16 A. Correct.

17 Q. Would there be a change on Page 14 with
18 respect to the calculation of your proposed -- or
19 the discussion of your proposed adjustment
20 regarding pension settlement gains?

21 A. Yes.

22 Are you looking at the first page of the

1 errata?

2 MS. LUSSON: It's all stated in the errata, the
3 cover page of the errata.

4 MR. ANDERSON: Okay. I apologize.

5 THE WITNESS: We tried to go through and find
6 where these numbers are mentioned and summarize all
7 the changes on the first page of the errata.

8 MR. ANDERSON: Okay. I just haven't had a
9 chance to check all those, but I will put those
10 aside and thank you.

11 BY MR. ANDERSON: Q. Now, could you please turn to
12 Page 32 of your direct testimony. Beginning at
13 Line 6, you discuss a proposed adjustment for the
14 removal of \$13.784 million of merger costs that SBC
15 billed to Ameritech Illinois in the year 2000; is
16 that correct?

17 A. That's correct.

18 Q. And it's your opinion that the \$13.784
19 million is a cost that would not have been incurred
20 but for the merger of Ameritech and SBC; is that
21 correct?

22 A. That's -- yes. That's part of the reason.

1 This is actually one of the adjustments I thought
2 the company agreed with.

3 Q. We do, and I just want to get some
4 clarifications for your reason for the adjustment
5 for the record.

6 A. Okay.

7 Q. If it's not -- it's not an issue in
8 controversy, I don't believe, and this should go
9 fairly quickly.

10 Is it your understanding that the
11 company incurred costs associated -- the merger
12 occurred in 1999, correct?

13 A. Yes.

14 Q. And it's your understanding the company
15 incurred costs associated with the merger in the
16 year 1999 as well as the year 2000?

17 A. I know they incurred costs, yes.

18 Q. In 1999?

19 A. Yes.

20 Q. And is it correct that one of the reasons
21 for your proposal to remove \$13.784 million in
22 merger costs from the 1999 operating income

1 statement is that those costs were not billed to or
2 booked by Ameritech Illinois until the year 2000?
3 Is that one of the reasons?

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

1 (Change of reporter)?

2 A. I point that out. I think the main reason
3 is that there are merger costs and are similar to
4 the other merger costs that were reported below the
5 line.

6 Q. But one of the reasons was that the costs
7 had not been billed to or booked by Ameritech
8 Illinois until the year 2000. That was another
9 reason?

10 A. I did mention that, yes.

11 Q. So that was a reason?

12 A. It was a reason but it wasn't the primary
13 reason.

14 Q. Okay.

15 And, in fact, that reason you did not
16 consider the \$13.784 million to be a 1999 test year
17 expense; is that correct?

18 A. What I said was the \$13.784 million is not
19 a 1999 expense and it's similar to other merger
20 costs that IBT recorded below the line. It should
21 be removed from the expenses for the 1999 test
22 year. And I go through it and calculate the dollar

1 amount in the adjustment.

2 Q. And I just have one more question.

3 Do you recall in Data Request

4 No. 5, which would have been in the first set of

5 data requests, to -- actually, I'm not sure what

6 set this is. It would have been the first set

7 directed to your testimony in which you were asked

8 to explain the basis for your assertion that the

9 \$13,784 million merger cost is similar to other

10 merger costs that IBT recorded below the line.

11 A. I recall the data request 5.

12 Q. Did I read the -- paraphrase the data

13 request correctly?

14 A. The actual data request itself?

15 Q. Yes.

16 A. Yes. To explain the basis for my assertion

17 that the \$13.784 million merger cost is similar to

18 other merger costs that IBT recorded below the

19 line, Page 32, Lines 10 through 12, GCI Exhibit 6.

20 Q. And you indicated in your response one of

21 your -- one of the things you indicated is that

22 they're similar to other merger costs that IBT

1 recorded below the line in 1999, correct? That's
2 one of the things you mentioned?

3 A. Correct.

4 Q. And you also mentioned that -- is it also
5 correct that you stated, quote, Unlike the 19 99
6 costs that IBT recorded below the line, the \$13.784
7 million was not even billed to or booked by IBT
8 until 2000; thus, it is not a 1999 test year
9 expense, unquote.

10 Did you make that statement?

11 A. Not in those exact words. I did point to
12 the fact that it was not booked in 1999.

13 Q. Well, I believe I read that sentence
14 verbatim.

15 Would you read the sentence that begins,
16 Unlike the 1999 costs, for the record?

17 A. Unlike the 1999 costs that IBT recorded
18 below the line, the 13.784 million was not even
19 billed to or booked by IBT until 2000; thus, it is
20 not a 1999 test year expense.

21 Q. Okay. Thank you.

22 The next sentence states, quote, it

1 should be removed from expenses for the 1999 test
2 year, unquote; is that correct?

3 A. Correct.

4 Q. Thank you.

5 Now, would you please refer to
6 Page 34 of your direct testimony.

7 A. Yes.

8 Q. There you discuss at Lines 3 to 5 -- in
9 that portion of your testimony you discuss an
10 adjustment related to accruals for asset
11 dispositions; is that correct?

12 A. That's correct.

13 Q. And at Lines 4 to 5 you use the phrase,
14 quote, a more appropriate rate making treatment,
15 unquote; is that correct?

16 A. Yes.

17 Q. And is it correct that you did not rely on
18 any orders of the Illinois Commerce Commission that
19 support for your view of what the, quote, more
20 appropriate rate making treatment, unquote, of this
21 item would be?

22 A. I don't know if I relied on any orders

1 specifically for this. I did rely on orders such
2 as the order in 92-0448 for the five-year
3 amortization period. I noted that the Commission
4 had used five years for a number of different costs
5 in that proceeding which were being normalized.

6 Q. Do you recall receiving a data request,
7 Item 6, of the first set of data requests directed
8 to your direct testimony?

9 A. Yes.

10 Q. Is it correct that the question states,
11 quote, Explain the basis for Mr. Smith's assertion,
12 at Page 34, Lines 3 to 4 of GCI 6.0 that, quote, if
13 the \$5.518 million is to reverse expense over
14 accruals that built up over a period of several
15 years, unquote, comma, the appropriate, quote, rate
16 making treatment, unquote, would be to amortize it,
17 provide all supporting documents including
18 Commission orders.

19 Did I read the request correctly?

20 A. Yes.

21 Q. And is it true that the first sentence of
22 the response reads as follows: Quote,

1 Mr. Smith's testimony does not reference Commission
2 orders for this adjustment but references some of
3 the specific Company responses to data requests
4 relied upon and provides the analysis underlying
5 the adjustment, unquote.

6 Is that the first sentence?

7 A. It's the first sentence of my very long
8 explanation.

9 Q. And the long explanation does not cite any
10 Commission orders; isn't that correct?

11 A. No Commission orders are cited here. As I
12 mentioned earlier, I did rely on 92-0448 for the
13 five-year amortization period.

14 Q. Did you consider the order in that case to
15 be a supporting document or a document supporting
16 your proposed adjustment?

17 A. Probably not except for my general reliance
18 on that for the five-year amortization period.

19 Q. So you're relying on that to choose a
20 five-year amortization period. You weren't relying
21 on it for the proposition that it was appropriate
22 to amortize it; is that correct?

1 A. I noted that -- and this is probably
2 mentioned in other places in my testimony -- that
3 when I first discussed the five-year amortization
4 period, I cite that order and note that the
5 Commission had used a five-year period for expenses
6 where it was normalizing the cost impact in that
7 docket.

8 Q. Okay. Was this data response complete at
9 the time you provided it?

10 A. Probably, yeah.

11 Q. Do you still consider it to be a full,
12 accurate, complete data response to that data
13 request?

14 A. I think it's complete with the additional
15 explanation considering the five-year period, yes.

16 Q. The order in 92-0448 does not contain any
17 discussions regarding adjustments for asset
18 disposition accruals of the nature issue in this
19 case; isn't that correct?

20 A. Not for that particular item. There were
21 other items that were being normalized.

22 Q. Were there any asset disposition accrual

1 credits being normalized?

2 A. I don't recall any.

3 Q. I refer to Page 45, Lines 9 through 11 of
4 your direct testimony.

5 A. Yes.

6 Q. You cite the order 92-0448, is that
7 correct?

8 A. Yes.

9 Q. Would it be correct that that is the only
10 specific order of the Illinois Commerce Commission
11 which you cite or relied upon in connection with
12 your proposed adjustment, the telephone plan under
13 construction?

14 A. That's the order that's mentioned in the
15 testimony.

16 Q. Isn't it correct that that's the only order
17 which you've either cited or relied upon in support
18 of your proposed adjustment at the time you
19 prepared your direct testimony?

20 A. That's an order I cited in the testimony.
21 I'm aware of other cases before the Commission that
22 had this type of treatment for construction work in

1 progress. I didn't go back and look at all of the
2 orders but I do -- I recall from having
3 participated in some other cases.

4 Q. You were asked a data request in Item 7 of
5 the first set to identify, ask whether you were
6 aware of any regulatory orders including orders of
7 this Commission in which your approach had been
8 adopted and if so to identify and provide all such
9 orders; isn't that correct?

10 MS. LUSSON: I would just note for the record
11 that the response indicates Mr. Smith has not
12 attempted to research specific orders as the basis
13 for this adjustment.

14 MR. ANDERSON: Q So you didn't cite or rely on
15 any other specific orders other than the one you
16 cited in your testimony, correct.

17 A. I didn't cite other specific orders.
18 That's correct.

19 Q. And you haven't attempted to research any
20 specific orders, correct?

21 A. Right. I didn't research orders but I was
22 aware of other cases because I had participated in

1 other cases.

2 Q. But you couldn't cite any specific cases in
3 response to the data request?

4 A. I think the response to the data request
5 provides a response to the data request and
6 explains the basis for the adjustment.

7 Q. Does the data response cite any orders, yes
8 or no?

9 A. It doesn't cite any other orders.

10 MS. LUSSON: Objection. Asked and answered.

11 MR. ANDERSON: Q And was that a full and
12 complete response to the data request, the response
13 that you provided.

14 A. The response to the data request or the
15 response to your question?

16 Q. The response to data request, Item 7.

17 Was the data response that you provided
18 a full, accurate and complete response to the
19 question asked?

20 A. Probably, yes.

21 Q. Okay. Thank you.

22 Would you please refer to Page 47, line

1 18 through Page 48, Line 2 of your rebuttal
2 testimony.

3 There you recommend --

4 A. I am sorry. Repeat the page reference.

5 Q. Page 47 --

6 MS. LUSSEN: In the direct?

7 MR. ANDERSON: In the rebuttal. I'm sorry if I
8 didn't say that. I apologize.

9 THE WITNESS: What was the page reference again?

10 MR. ANDERSON: Q Page 47, Line 18 is the
11 beginning.

12 A. Of the rebuttal?

13 Q. Correct.

14 A. Yes.

15 Q. There you recommend adjusting telephone
16 plan under construction to a, quote, normalized
17 level using an average, unquote; is that correct?

18 A. That's correct.

19 Q. As used in Line 20, is it correct that the
20 term normalized level would mean the same as a
21 normal level?

22 A. A level that's more representative of a

1 normal balance that had been experienced, yes.

2 Q. Okay.

3 And you made an adjustment to reduce the
4 balance of what you determined to be a normal
5 representative level of telephone plan under
6 construction, correct?

7 A. Yes.

8 Q. And to develop that normal level, you used
9 a 36-month average of the monthly balances of
10 telephone plan under construction; is that correct?

11 A. Yes, I did. I included all of the analyses
12 with the direct testimony and the schedules that
13 were provided with that.

14 Q. Okay.

15 If an income statement item is
16 abnormally high in a particular year due to
17 circumstances which are nonrecurring, would it be
18 appropriate to normalize that expense item by
19 reducing or by making an adjustment to reduce the
20 item to a normal representative level similar to
21 the adjustment you made in the rate case?

22 MS. LUSSON: Mr. Examiner, can I ask a

1 clarification question. Are you speaking in
2 general terms or are you referencing --

3 MR. ANDERSON: I am speaking in general terms.

4 THE WITNESS: In general terms, income statement
5 items are normalized as well. And I think there's
6 several of these -- or at least a couple in dispute
7 here where the Company's approach is just to take
8 it out entirely such as the pension gains; whereas,
9 the GCI and Staff approach is to try to reflect it
10 over some kind of average period. And GCI and
11 Staff have come up with somewhat different methods
12 of doing that but the idea is not to remove it
13 entirely but to kind of smooth the impact on the
14 test year.

15 MR. ANDERSON: Q To normalize it.

16 A. To normalize it.

17 Q. By reducing it to a normal representative
18 level, correct?

19 A. To reflect it in rates at some kind of more
20 normal level, yes, not to remove it entirely as the
21 Company is proposing.

22 Q. Now, would you please refer to Pages 28 and

1 29 of your rebuttal testimony.

2 A. Yes.

3 Q. At that portion of your testimony you
4 discussed the issue of whether pension settlement
5 gains recorded in 1999 and the first half of 2000
6 were caused by the merger of SBC and Ameritech; is
7 that correct?

8 A. No. I think what I'm responding to is
9 Mr. Dominick's claim that the pension settlement
10 gains were not caused in any way by the merger of
11 SBC and Ameritech. And I just expressed the
12 skepticism of that.

13 Actually, this point really doesn't
14 effect the adjustment at all because I would still
15 be making it. And since then he's provided some
16 additional data responses that address the pension
17 settlement issue which provides some more
18 information in his surrebuttal testimony.

19 I believe the adjustment stands as
20 calculated and it's really not that important
21 whether these people left or whether their leaving
22 was influenced by the merger.

1 Q. And, in fact, you do not consider these
2 pension settlement gains the ones booked in 1999
3 and the first half of 2000 to be merger related
4 savings that should be netted against other merger
5 costs; isn't that correct?

6 A. Correct. They're an item that occurred in
7 1999. The Company has explained that it wasn't
8 caused by the merger. Whether people decided to
9 leave after the merger is -- you know, I'm a little
10 bit skeptical but I'm accepting the Company's
11 explanation that they weren't caused by the merger.
12 They should be treated as a cost item that effected
13 the test year based on the abnormal level of
14 retirements experienced in 1999.

15 And my recommendation is that that cost
16 impact be normalized. It shouldn't be treated as a
17 -- there's a special category of merger related
18 costs. I'm not recommending that it be treated as
19 one of those.

20 Q. Okay. Thank you.

21 Please refer to Page 52 of your rebuttal
22 testimony.

1 A. Yes.

2 Q. Now, refer to beginning on Line 15 you
3 state that, The 11.8 percent appears reasonable in
4 comparison with cost rate for common equity for
5 intrastate telephone operations and other recent
6 cases in which I have participated as a witness as
7 summarized in the following table.

8 Then you have a table which lists some
9 information about three cases; is that correct?

10 A. That's correct.

11 Q. Now, is it correct that the first case
12 cited is an order -- that involves an order dated
13 11/29 -- or November 29, 2000 in a case involving
14 the Matanuska Telephone Association?

15 A. That's correct.

16 Q. This is an order of the Regulatory
17 Commission of Alaska. Would that be correct?

18 A. Correct.

19 Q. And is it correct that the Matanuska
20 Telephone Association is a member owned
21 co-operative?

22 A. That's correct.

1 Q. Is it correct that in the proceeding
2 Matanuska Telephone Association initially proposed
3 an 8.06 percent overall rate of return which
4 reflected an 11 percent return on equity?

5 A. Based on our recollection that seems
6 correct, yes. I do recall specifically the
7 11 percent.

8 Q. And the staff of the Commission of the
9 Alaska Commission basically concurred with the
10 Company's proposal with respect to its capital
11 structure and rate of return in that case; isn't
12 that correct?

13 A. That's correct.

14 Q. Is it correct that in its order the
15 Commission noted staff's concurrence and approved
16 that overall rate of return noting that it is a,
17 quote, rather conservative estimate of rate of
18 return, unquote?

19 MS. LUSSON: If you're going to read or quote
20 from the order, do you have a copy of that order?

21 MR. ANDERSON: I do. If he needs a cite, I
22 would be happy to give it to him.

1 Q. Do you recall whether the order stated
2 that?

3 A. I know that the Commission adopted the
4 capital structure and cost rates because they were
5 agreed to by all of the parties.

6 Q. Would you agree that at Page 15 of the
7 order the following statement occurs:

8 Conclusion --

9 JUDGE CASEY: Mr. Anderson, if you want him to
10 agree to something in the order, he has got to see
11 the order.

12 THE WITNESS: This paragraph here?

13 MR. ANDERSON: Yes.

14 Q. I just want to read it and ask you if
15 that's correct.

16 Is it correct that the order states at
17 Page 15, Conclusion, MTA has requested an 8.06
18 percent rate of return. This rather conservative
19 estimate of rate of return reflects a weighted cost
20 of capital of 5.58 percent for long-term debt, and
21 an 11 percent return on equity.

22 Is that what it states?

1 A. Yes.

2 Q. And it further states that, The PAS --
3 which I assume is an abbreviation for the
4 staff -- concurred with MTA's proposed capital
5 structure and rate of return?

6 A. Right. PAS is Public Advocacy Section.
7 It's a section of the staff.

8 Q. Were you a witness in that case?

9 A. Yes.

10 Q. Did you testify on the cost of equity?

11 A. Yes.

12 Q. You were a witness for the staff in that
13 case?

14 A. Right, for the PAS.

15 Q. Thank you.

16 Do you know what methodology was used by
17 Matanuska in developing its proposed cost of equity
18 of 11 percent in that case?

19 MS. LUSSON: Mr. Examiner, I'm going to object
20 at this point. The chart that's included in Mr.
21 Smith's rebuttal testimony speaks for itself. Now
22 we're getting into detailed questions about the

1 methodology used in this Alaskan case. I think we
2 have gone beyond Mr. Smith's testimony as to why he
3 selected an 11.8 percent return on equity level for
4 purposes of making his revenue requirement
5 calculation.

6 JUDGE CASEY: So your objecting to beyond the
7 scope?

8 MS. LUSSON: That's right.

9 JUDGE CASEY: Response.

10 MR. ANDERSON: My response is I don't have a lot
11 of questions on this area. I'm not going to delve
12 deep into it but I do believe I have a right to
13 inquire as to Mr. Smith's knowledge of the facts
14 and circumstances which gave rise to any orders or
15 stipulations to make the record clear as to how
16 relevant these are to the issues in this case and
17 to whether any weight should be given to an order
18 which adopts a particular -- or a stipulation which
19 adopts a particular cost of equity in another
20 proceeding.

21 As I understand it, Mr. Smith is citing
22 these orders as relevant to the reasonableness of

1 an 11.8 percent rate of return and I believe I have
2 some -- I should have some latitude to explore his
3 knowledge about these orders and the cost of
4 equities in the orders.

5 JUDGE CASEY: The objection is overruled
6 although the level of how that -- I mean, we're
7 starting to get deep.

8 Do you recall -- can you please repeat
9 the question, Mr. Anderson.

10 MR. ANDERSON: Q Do you know what methodology
11 was applied by the Matanuska Telephone Association
12 in developing its proposed 11 percent cost of
13 equity.

14 A. Do you want me to answer?

15 JUDGE CASEY: Yes.

16 THE WITNESS: I think it was primarily based on
17 their judgment and the company people.

18 MR. ANDERSON: Q Based on what, I missed the
19 first part?

20 A. Based on their judgment.

21 Q. Based on judgment.

22 Do you know for what time period that

1 cost of equity was calculated?

2 A. It's for rates that are still yet to go
3 into effect.

4 Q. Okay. Now the next case --

5 A. Effect of this year, so it's current.

6 Q. The next case cited at the bottom of Page
7 52 is case involving US West Communications pending
8 before the Arizona Corporation Commission in Docket
9 T-01051B-99-0105; is that correct?

10 A. That's correct.

11 Q. Now, you have referred to that case as a
12 stipulation; is that correct?

13 A. It's currently my understanding it's a
14 stipulation that was agreed to by some but not all
15 of the parties and will go before the Commission
16 later this month.

17 Q. Would it be more accurate to characterize
18 it as a settlement agreement of a pending request
19 for US West, now known as Qwest, general rate case
20 and that the agreement was between Qwest
21 Corporation and the Arizona Corporation Commission
22 Staff?

1 A. It started out as an agreement between
2 those two parties and I think a couple other
3 parties joined. I think FAE DOD joined and I think
4 one or two others. There's still some other
5 parties that haven't joined yet that are opposing
6 actually.

7 Q. But it would be a fair characterization to
8 refer to it as a settlement agreement?

9 A. At this stage, yes. I think it's in the
10 stage of a proposed decision actually now.

11 Q. A proposed decision approving the
12 settlement agreement?

13 A. Yes, but it hasn't yet been approved as
14 such by the Commission.

15 Q. Okay. And the settlement agreement
16 involves adoption of a price campaign plan for
17 Qwest in the adoption of rates designed to recover
18 a revenue requirement deficiency.

19 Would that be correct?

20 A. That was all part of it, yes.

21 Q. And the settlement agreement contains a
22 provision that for rate making purposes the parties

1 to the agreement agreed that a reasonable return on
2 fair value of rate base is 9.61 percent, correct?

3 A. Right, but keep in mind the words fair
4 value. In Arizona they have a calculation where
5 they calculate a different return on fair value
6 rate base.

7 Q. Okay.

8 A. It's different than original cost.

9 Q. Okay. The stipulation does not -- or the
10 settlement agreement does not reference -- not
11 specifically identify what the cost of capital or
12 agreed cost of capital would be as applied to
13 original cost of rate base; isn't that correct?

14 A. It does reference that it's -- the
15 settlement agreement is using staff's recommended
16 number.

17 Q. And the recommended number of
18 9.61 percent is a recommended number or a
19 recommended return on fair value of rate base,
20 correct?

21 A. Right, but it's based on staff's cost of
22 capital recommendation.

1 Q. Okay. Again, we're getting kind of off
2 track but I thought you just indicated that that
3 number as applied to a reasonable return on the
4 fair value of rate base -- on a fair value rate
5 base would not be the same number as applied to an
6 original cost rate base; is that correct?

7 A. Right. They go through an interpolation
8 where they essentially produce the same result.

9 Q. Okay.

10 And my question is, the settlement
11 agreement does not identify the cost of capital or
12 rate of return that would be applicable to an
13 original cost rate base, correct? It doesn't
14 translate the 9.61 percent into a number which one
15 could then take and say, this is the number that
16 the parties have agreed to apply to an original
17 cost rate base; is that correct?

18 A. That's not spelled out explicitly in the
19 settlement agreement but it does indicate clearly
20 that the number that's being adopted for rate of
21 return and for the fair value of rate base as well
22 is from the staff's filing. You can look back at

1 the details of that and determine what the
2 comparable original cost numbers would be.

3 Q. Now, the staff rate of return of
4 11.75 percent which you show on your chart, is that
5 the rate of return on equity which is consistent
6 with the 9.61 percent return on fair value rate
7 base?

8 A. That would be the number that it was based
9 on, the 11.75. I think all of these numbers are
10 related to original cost.

11 Q. Equity numbers are related to original
12 cost?

13 A. Yes. There is an interpolation to
14 essentially produce the same results using a fair
15 value rate base.

16 Q. Would you agree that the settlement
17 agreement does not specifically reference a cost of
18 common equity?

19 A. It does reference -- it's using staff's
20 recommended cost of capital, which includes this
21 cost of equity.

22 Q. Now, would you agree that the settlement

1 agreement contains a provision which expressly
2 states that the agreement represents the party's
3 mutual desire to compromise and settle disputed
4 claims and issues regarding the prospective just
5 and reasonable rate levels of Qwest?

6 MS. LUSSEN: I'm going to object. If
7 Mr. Anderson, once again, wants Mr. Smith to agree
8 that a settlement or a stipulation states something
9 in particular, I think he needs to show it to the
10 witness.

11 JUDGE CASEY: I agree.

12 MR. ANDERSON: I would be more than happy to.

13 Q. Take a look at that, Mr. Smith, and I'll
14 ask you if you recognize that as the settlement
15 agreement?

16 A. It looks like one version of it, yes.

17 Q. Does it look like the version that's posted
18 on the web site for the Arizona Corporation
19 Commission along with the proposed order adopting
20 it. Would you agree that --

21 A. I haven't checked their web site and I have
22 seen versions of this. I'm not sure if it's been

1 modified since but it does look like a version of
2 the settlement agreement.

3 Q. Would you accept subject to check that it
4 is the settlement agreement that is posted on the
5 web site for the Arizona Corporation Commission?

6 A. I'll accept that.

7 Q. Would you please refer to Page 9 of the
8 settlement agreement.

9 A. Page 9.

10 Q. I am sorry, Mr. Smith, I meant to refer to
11 Paragraph 9. Would you agree that Paragraph 9 is
12 headed or has the title Compromise?

13 A. Yes.

14 Q. Would you agree that Paragraph 9 expressly
15 states that, This agreement represents the Parties'
16 mutual desire to compromise and settle disputed
17 claims and issues regarding the prospective just
18 and reasonable rate levels of Qwest, and that the
19 agreement represents the compromise of the position
20 of the parties?

21 MR. BRADY: I would like this to be an objection
22 as much as a request of clarification. This is the

1 second document that he's used with this witness
2 that I'm not sure if he has the intent of at least
3 admitting it in as an exhibit, so at least staff
4 will have an ability to look at this later on so I
5 guess I have a question if this is going to be
6 admitted into evidence, then we will allow this.
7 Otherwise, we would have an objection for this line
8 of questioning.

9 MR. ANDERSON: I wasn't intending to make it an
10 exhibit. I don't think I'm required to. I think
11 the line of questioning is appropriate without
12 making it an exhibit.

13 I have no objection of making it an
14 exhibit. My only point is to point out that some
15 of the provisions -- make clear that it's a
16 compromise of the parties and that the parties to
17 the settlement agreement reserve the right to take
18 inconsistent positions if the Commission doesn't
19 approve it, which the Commission has not approved
20 it according to the witness.

21 And I was simply going to make clear
22 through this witness who has testified that he

1 participated in the case and has recognized this as
2 the settlement agreement whether these are
3 provisions of the settlement agreement.

4 I really only have a few more questions
5 along those lines.

6 MR. BRADY: Your Honor, we all see where he is
7 going with this. It's just that when we go back to
8 review the record, we would like to make it clear
9 and easy to follow.

10 JUDGE CASEY: The bottom line is this, you're
11 crossing him on it to show some sort of a fact that
12 this is based on a compromise. I think it would be
13 more appropriate that it would be at least marked
14 for identification purposes. I haven't seen it, so
15 I don't know what it says other than what's been
16 read into the record. So I would agree with staff.

17 MR. ANDERSON: Okay.

18 JUDGE CASEY: I'm not saying that you can't ask
19 the questions. I'm just saying they should be made
20 for identification.

21 MR. ANDERSON: I don't have copies for the
22 reporter but I can certainly make those for you

1 tomorrow.

2 JUDGE CASEY: If you could for both the Alaskan
3 case and the Arizona case.

4 MR. ANDERSON: All right. The Alaskan order
5 would be Ameritech Illinois Cross of Staff
6 Exhibit 29.

7 JUDGE CASEY: Yes. Then Arizona would be
8 Ameritech Smith Cross 30.

9 MR. ANDERSON: All right.

10 (Whereupon, Ameritech Illinois
11 Smith Cross Exhibit
12 Nos. 29 and 30 were marked for
13 identification.)

14 JUDGE CASEY: Okay. Thank you.

15 (Record read as requested.)

16 THE WITNESS: That's a paraphrase of Paragraph
17 9. It's not stated exactly the way it's worded
18 here.

19 MR. ANDERSON: Q Is it a fair characterization
20 of it?

21 A. It's a standard subparagraph.

22 Q. Okay.

1 Would you refer to Paragraph 8?

2 A. Yes.

3 Q. That paragraph is entitled Commission
4 Approval and Severability, correct?

5 A. Correct.

6 Q. And that provision provides that, Each
7 provision of the agreement is in consideration and
8 support of all other provisions, and expressly
9 conditioned upon approval by the Arizona Commission
10 without material change, correct?

11 A. Correct, not exactly as it's worded. It's
12 paraphrased pretty accurately.

13 Q. And is it also true that that paragraph
14 provides that unless the Parties otherwise agree in
15 the event the Arizona Commission fails to accept
16 and approve the settlement agreement according to
17 its terms, then it shall be deemed withdrawn by the
18 Parties and the Parties shall be free to pursue
19 their respective positions in the rate case without
20 prejudice?

21 A. It does provide that, yes.

22 Q. Thank you.

1 Now, I believe that you indicated
2 there's been no final order but there's been a
3 proposed order addressing a settlement agreement;
4 is that correct?

5 A. I have been advised that it's scheduled for
6 one of the upcoming Commission open meetings. I'm
7 not sure if there's a proposed order yet but
8 usually there has to be a proposed order before it
9 gets on the agenda.

10 Q. Well, I'm going to show you a document
11 which is my understanding of what the proposed
12 order is in that case and ask you if you recognize
13 that.

14 JUDGE CASEY: Mr. Anderson, are you trying to
15 determine whether or not there's been a final order
16 on it?

17 MR. ANDERSON: I know there's not been a final
18 order.

19 JUDGE CASEY: Is that what you're trying to get
20 out of this witness?

21 MR. ANDERSON: No.

22 THE WITNESS: It does appear to be a proposed

1 order or at least a draft of one.

2 MR. ANDERSON: Would you please turn to
3 Page 9 of the draft order or the proposed order.

4 A. Page 9.

5 JUDGE CASEY: We're going to mark this as
6 Ameritech Smith Cross Exhibit 31 for
7 identification?

8 MR. ANDERSON: Correct.

9 (Whereupon, Ameritech Illinois
10 Smith Cross Exhibit No. 31 was
11 marked for identification.)

12 MR. ANDERSON: Q Would you agree that in the
13 first full paragraph of that proposed order the
14 following language appears --

15 MR. BRADY: Objection, your Honor. He's
16 crossing the witness with a document that he has
17 not seen before?

18 MR. ANDERSON: Well, I thought -- maybe I'm
19 wrong. I thought he had accepted that this is a
20 draft or proposed order. If he doesn't want to
21 accept that, that's fine.

22 MR. BRADY: It doesn't mean that it was his

1 draft of it.

2 JUDGE CASEY: But the witness can answer the
3 question.

4 MR. ANDERSON: Q My question is, is it correct
5 that in that portion of the proposed order the
6 following language appears, quote, In accepting the
7 agreed upon revenue increase, we of course, are not
8 determining how the Commission would decide any
9 particular issue.

10 A. Can you point that out to me?

11 MS. LUSSON: I guess --

12 MR. ANDERSON: The only question is whether it
13 says that. That's the only question I have on the
14 table.

15 MS. LUSSON: My objection is this, first, is
16 this a draft proposed order or is this the
17 equivalent of a HEPO here in Illinois. I'm not
18 sure what this is.

19 MR. ANDERSON: This is a document that appears
20 on the Arizona Corporation Commission web site and
21 it's designated as a proposed order. That's all I
22 know.

1 MS. LUSSON: This questioning seems to go beyond
2 the scope of Mr. Smith's limited testimony on this
3 issue which is that he cites three Commission
4 orders --

5 JUDGE CASEY: Ms. Lusson, I'm going to allow the
6 question. I'm going to -- I know it's a proposed
7 order. I know the weight of my own proposed
8 orders. So if the witness would answer his last
9 question.

10 THE WITNESS: It does say that they are not
11 determining how the Commission would decide any
12 particular issue, but within the other portions of
13 the order they do identify the rate of return and
14 the fair value rate base.

15 MR. ANDERSON: Q They identify that as
16 components of a settlement agreement, correct.

17 A. As part of the proposed order. If they
18 don't do that in Arizona, they can't put rates into
19 effect.

20 Q. The proposed order is approving the
21 settlement agreement, correct?

22 A. Correct.

1 Q. So any rates of return being referred to
2 are the rates of return that are in the settlement
3 agreement, correct?

4 A. Right.

5 Q. And the proposed order states that by
6 adopting a settlement agreement, the Commission
7 wouldn't necessarily decide the same way on these
8 issues if there weren't a settlement agreement,
9 correct?

10 MS. LUSSON: Objection. Mr. Anderson did not
11 let the witness finish his last response.

12 THE WITNESS: The parties that agreed to the
13 settlement used the staff's recommended rate of
14 return, which includes 11.75 percent return on
15 equity. And I have laid out what the other parties
16 to that proceeding who had made recommendations
17 concerning the rate of return, what they had
18 proposed.

19 MR. ANDERSON: Okay.

20 Q. Now, finally, we get to the North Dakota
21 Public Service Commission.

22 At the bottom of Page 52 --

1 JUDGE CASEY: Of?

2 MR. ANDERSON: This is my last line.

3 JUDGE CASEY: Page 52 of what?

4 MR. ANDERSON: Page 52 of the rebuttal.

5 JUDGE CASEY: Thank you.

6 MR. ANDERSON: Q At the bottom of Page 52 the

7 last item you cite is a case involving US West

8 Communications before the North Dakota Public

9 Service Commission, correct.

10 A. Correct.

11 Q. You refer to an order dated

12 September 20th, 2000; is that correct?

13 A. Yes.

14 Q. That case involved a review of a cost of

15 service study presented to support an increase in

16 the price of local residential service; is that

17 correct?

18 A. Yes, that's part of an overall rate

19 rebalancing that was interrelated with other

20 proceedings, but yes.

21 Q. And the cost study at issue in that case

22 was filed on August 17th, 1999 and utilized a 1998

1 calendar test year. Would that be correct?

2 A. It did use a '98 test year.

3 Q. Okay. You indicate that the Commission in
4 that case -- well, let me back up.

5 Would you accept subject to check that
6 the cost study at issue in that case was filed on
7 August 17th, 1999?

8 A. One version of it was. It went through
9 numerous iterations before it got to the final
10 order. Something was filed with that.

11 Q. Now, you indicate that the Commission in
12 that case adopted a cost of equity of
13 11.25 percent. Would that be correct?

14 A. Yes.

15 Q. Is it correct that the North Dakota
16 Commission adopted the 11.25 percent return on
17 equity based on DCF or discounted cash flow
18 estimates of the market required returns at the end
19 of the 1998 calendar year test period in that case?

20 A. I know they used the DCF method. I don't
21 recall whether the returns were extended beyond
22 there and examined for periods beyond 1998.

1 Q. Would it refresh your recollection if I
2 showed you a copy of the order, Mr. Smith?

3 A. I don't know if it would or not. I don't
4 know how much detail they went into as to what DCF
5 periods they looked at.

6 Q. Did you review the order in preparing for
7 your testimony?

8 A. I took a look at it, yes.

9 Q. And you participated in the case, correct?

10 A. Yes.

11 Q. Now, I'm going to show you -- and if you
12 would like, I'll mark this as an exhibit.

13 JUDGE CASEY: Ameritech Cross 32.

14 (Whereupon, Ameritech Cross
15 Exhibit No. 32 was
16 marked for identification.)

17 MR. ANDERSON: Q I'd ask you if you recognize
18 this as the order which was entered or dated
19 September 20th, 2000 in the North Dakota Commission
20 case which you cite at the bottom of Page 52 of
21 your rebuttal testimony.

22 A. Yes. This appears to be the Commission

1 order in that proceeding.

2 JUDGE CASEY: Does that refresh your
3 recollection?

4 THE WITNESS: Yes.

5 MR. ANDERSON: Let me refer you specifically to
6 Paragraph 17. Does that indicate -- does the
7 language in Paragraph 17 of that order indicate
8 that the North Dakota Commission adopted the
9 11.25 percent return on equity based on DCF
10 estimates of the market required returns at the end
11 of the 1998 calendar year test period in that case.

12 A. Yes, it does.

13 Q. Okay. Does it indicate that --

14 A. It also indicates that the Commission finds
15 staff's suggestion 11.25 percent return on common
16 equity as reasonable and should be accepted.

17 Q. Okay. Does it also indicate that
18 US West propose a 12.39 percent return on equity?

19 A. Yes, it does.

20 Q. And is it correct -- does the order
21 indicate that US West's proposal was also based on
22 an estimate of its market return of common equity

1 for December of 1998?

2 A. Yeah. I mean, they looked at that and
3 there was other information in the case including
4 Us West's last authorized returns on equity in all
5 of the other states it served.

6 Q. That was for a period ending in 1997,
7 correct?

8 A. Yeah, 1987 through 1997. It says -- the
9 proceeding was the most recent with an authorized
10 return of 11.2 percent in 1997.

11 Q. Now, Mr. Smith, does it also indicate that
12 in support of its proposal US West presented
13 estimates of a market required return on equity
14 using both the discounted cash flow or DCF model as
15 well as the capital asset pricing model or
16 CAPM, C-A-P-M?

17 A. US West presented various estimates. The
18 Commission in North Dakota doesn't use those other
19 models. They rely on DCF. DCF was in the range of
20 9.5 percent and 11.3.

21 Q. My question is this, I think you're getting
22 there. It is a very simple question.

1 Did US West base its proposal on a DCF
2 and a CAPM analysis?

3 MS. LUSSEN: Objection. Relevance.

4 MR. ANDERSON: I just have very few questions
5 here.

6 MS. LUSSEN: Mr. Examiner, we have gone -- we're
7 getting more and more into detail and what
8 methodology US West used to compute its recommended
9 ROE seems irrelevant to the statements made in Mr.
10 Smith's rebuttal testimony which was that he
11 selected 11.8 percent as the low end of the common
12 equity recommendation made by staff in this
13 proceeding and that other recommended costs of
14 equities that are at issue in these three
15 proceedings supports a selection of that
16 11.8 percent level.

17 JUDGE CASEY: Mr. Anderson, the relevance.

18 MR. ANDERSON: The relevance is is my next
19 question will ask is whether the Commission
20 rejected the use of the CAPM and decided to base
21 its decision solely on DCF.

22 Then the next question after that will

1 be whether he knows whether the Illinois Commerce
2 Commission rejects the use of the CAPM and relies
3 solely on DCF.

4 JUDGE CASEY: Well, why don't we take it one
5 question at a time.

6 MR. ANDERSON: Okay. That's what I was trying
7 to do.

8 THE WITNESS: US West used --

9 JUDGE CASEY: Hold on, Mr. Smith. Do you know
10 the answer to the question, the original posed
11 question?

12 THE WITNESS: I think so.

13 JUDGE CASEY: Go ahead and answer it

14 THE WITNESS: US West used DCF and CAPM and
15 produced a recommendation in the range of
16 11.3 percent to 12.4 percent. And then he
17 discarded the DCF analysis and went with a
18 12.39 percent, so US West did not propose using the
19 DCF.

20 MR. ANDERSON: All right.

21 Q. Is it correct that the North Dakota
22 Commission in making its decision to adopt the cost

1 of equity of 11.25 percent relied solely on the DCF
2 estimates of the cost of equity and did not take
3 into consideration the results of the
4 CAPM model?

5 A. I think they looked at all of the evidence
6 in the record and they hadn't shown much
7 perceptance to the CAPM model. I think they also
8 defer to the staff recommendation as an objective
9 unbiased party.

10 Q. Does the order state at Paragraph 17 that,
11 The commission found the DCF method to be
12 reasonable and rejected the equity risk premium and
13 CAPM pricing analyses in determining cost of common
14 equity?

15 MS. LUSSEN: I think the order speaks for itself
16 and, in fact, Mr. Smith just indicated that the
17 Commission chose the DCF analyses and rejected
18 CAPM.

19 JUDGE CASEY: Objection sustained.

20 Next question.

21 MR. ANDERSON: If he said that, I wasn't clear
22 so thank you for clarifying that.

1 I have nothing further. Thank you.

2 JUDGE CASEY: Thank you, Mr. Anderson.

3 Given the hour, we will recess until
4 tomorrow morning.

5 Again, we pick up --

6 MS. LUSSON: Mr. Examiner, Mr. Smith cannot be
7 here tomorrow morning. He has commitments in
8 California. It was my understanding that we were
9 going to finish Mr. Smith tonight.

10 JUDGE CASEY: Well, we've got 7 minutes of court
11 reporter time left.

12 CROSS EXAMINATION

13 BY

14 MR. BRADY:

15 Q. Good evening, Mr. Smith. My name is Sean
16 Brady. I am one of the counsel for the staff of
17 the Illinois Commerce Commission.

18 A. Good evening.

19 Q. Mr. Smith, may I direct your attention to
20 your rebuttal testimony on Page 31 where you
21 address a directory revenue.

22 On Page 31, did you not recommend that

1 the directory revenue be \$126 million?

2 A. Yes, at least 126 million.

3 Q. Now, drawing your attention to your
4 Schedule E-1 Revised entitled Adjustment for
5 Directory Revenue. It's a summary of estimates and
6 recommended adjustment.

7 Line 1, states, That directory revenue
8 in Docket No. 92-0448 was 126 million, correct?

9 A. Yes.

10 Q. You have read that docket and so you're
11 familiar with how that 126 million was derived,
12 correct?

13 A. I have read it. I have a developed
14 understanding of that, yes.

15 Q. Therefore, you agree with the methodology
16 that was used within Docket 92-0448, correct, the
17 methodology that was used by the Commission in that
18 docket?

19 A. I agree that directory revenue needs to be
20 reflected for the determination of Illinois Bell's
21 interstate revenue requirement, and I agree that
22 the amount should be at least 126 million.

1 In this case I tried to make various --

2 JUDGE CASEY: There's no question pending right
3 now, Mr. Smith.

4 MR. BRADY: Q Mr. Smith, in Docket 92-0448
5 would you be able to summarize the methodology that
6 was used in developing the 126 million.

7 A. I think --

8 Q. Let me withdraw that.

9 I'll focus you on -- isn't it true, Mr.
10 Smith, that in Docket No. 92-0448, the Commission
11 relied on the cost -- the average cost per access
12 line in developing its directory revenue number in
13 that case as part of the equation in developing the
14 directory revenue in that case?

15 A. I think the Commission relied on the
16 calculations that were presented by Sam Mccleran
17 (phonetic) in that case. He presented two
18 alternative sets of calculations both which came
19 out very close to the same number. And it's my
20 understanding that that's what the Commission
21 relied upon.

22 Q. And you used both of those methods in this

1 docket, did you not, Mr. Smith?

2 A. I tried to replicate those as closely as I
3 could as well as looking at other information that
4 was available in this docket such as the API
5 Illinois Financial Information.

6 MR. BRADY: Thank you. We have no further
7 questions. We will allow you to redirect.

8 JUDGE CASEY: Any redirect?

9 MS. LUSSEN: Just one minute, please.

10 (Discussion off the record.)

11 MS. LUSSEN: I just have a couple of questions.

12 JUDGE CASEY: Back on the record.

13 REDIRECT EXAMINATION

14 BY

15 MS. LUSSEN:

16 Q. Mr. Smith, Mr. Anderson asked you some
17 questions about your response to the Company's Data
18 Request No. 6 related to your direct testimony.

19 Is this a copy of that response that you
20 provided to the Company?

21 A. Yes.

22 Q. Does that reflect the full and complete

1 response that you provided to the Company?

2 A. Yes, it does.

3 Q. I'm showing you what's been marked as --
4 this would be GCI Exhibit 6.8.

5 (Whereupon, GCI
6 Exhibit Nos. 6.8 and 6.9 were
7 marked for identification.)

8 MS. LUSSON: I'll show you what I have marked as
9 GCI Exhibit 6.8.

10 Q. Mr. Anderson asked you some questions
11 regarding your response to the Company's Data
12 Request No. 7. Does this response represent a
13 complete response offered to the Company in
14 response to that data request?

15 A. Yes, it does.

16 Q. Is your answer still the same today as when
17 you provided that to the Company?

18 A. Yes.

19 Q. Mr. Anderson asked you a series of
20 questions about the -- I believe it was Page 57 of
21 your rebuttal testimony -- Page 52, I am sorry --
22 regarding your reference to three telephone company

1 rate cases and your citation to them as support for
2 your selection of 11.8 percent return on equity for
3 purposes of your revenue requirement calculation.

4 Do you recall those questions?

5 A. Yes.

6 Q. With respect to the line of questioning
7 regarding the Matanuska telephone case in Alaska,
8 does the fact that there's an agreement among the
9 parties with respect to that 11.00 return on equity
10 figure in your mind make this figure any less
11 relevant to your conclusion that it supports the
12 11.8 percent ROE level you used for your revenue
13 requirement calculation?

14 A. No. I just used these other figures to
15 evaluate in my own mind whether the 11.8 percent
16 would be reasonable. These were other concurrent
17 telephone proceedings in which I was involved doing
18 similar calculations.

19 Q. And with respect to the Qwest case, does
20 the fact that the State of Arizona Commission uses
21 a fair value rate base in that proceeding effected
22 all of your conclusions that the ROE levels

1 proposed in that docket offer a valid comparison
2 and support for your selection of an 11.8 percent
3 return on equity for purposes of your revenue
4 requirement calculation?

5 A. I thought that the ROE recommendations
6 proposed by the parties in that case with the
7 possible exception of Qwest itself all supported
8 the use of the 11.8 percent in this case.

9 Q. Is it correct that despite the use of the
10 fair value rate base, that there can be a
11 correlation to original cost rate base as was done
12 in that docket?

13 A. They have to make a fair value rate base
14 and rate return calculation in Arizona but the
15 numbers are also calculated on the original cost.

16 Q. As I understand your testimony is there an
17 interpolation that's used when fair value rate base
18 is used to make a comparison to original cost rate
19 base?

20 A. Yes. It usually ends up coming out with
21 the exact same result.

22 Q. And with respect to the North Dakota

1 decision, Mr. Anderson asked you some questions
2 regarding the fact that a '98 test year was used in
3 that docket.

4 Does that at all effect your conclusion
5 that this was a relevant return on equity
6 recommendation for purposes of comparing it with
7 your selection of an 11.8 percent level?

8 A. The rate of equity can change over time but
9 one of the things I looked at was when the rates
10 established in that proceeding were going into
11 effect. Some of those rates were going into effect
12 in July of 2000.

13 Q. Okay.

14 A. So I thought it represented another point
15 of reference that I was aware of.

16 MS. LUSSEN: That's all of the redirect we have.

17 MR. ANDERSON: I have nothing further.

18 MS. LUSSEN: Then I would move for the admission
19 of GCI exhibits 6.8 and 6.9.

20 MR. ANDERSON: I would object to the admission
21 of those documents.

22 The documents were referenced only after

1 I had asked Mr. Smith a question about whether he
2 relied on any specific Commission orders in
3 connection with his adjustment with respect to
4 asset disposition accruals.

5 Mr. Smith gave an answer, which I did
6 not believe was -- or gave an answer for which I
7 attempted to impeach him with the response to Data
8 Request No. 6.

9 The purpose of that was to indicate that
10 we had asked in the response for Mr. Smith to
11 identify the Commission orders or other supporting
12 documents upon which he relied.

13 The first two -- the first sentence is
14 relevant to that issue. The rest of the response
15 is a detailed description of the bases for his
16 proposal. I didn't ask him the bases for his
17 proposal. I asked him whether he had cited or
18 relied on any specific orders.

19 JUDGE CASEY: Counsel, I don't have a copy of
20 it, so I can't tell you.

21 Please proceed.

22 MR. ANDERSON: My response or my objection

1 similarly goes to Item 7. Again, I had asked him
2 some questions. I had asked him a question about
3 whether he had -- or whether it was true that he
4 had not relied on any specific Commission orders
5 other than the order which he cites in his
6 testimony. Because of the way he responded to that
7 question, I felt it necessary to point him to the
8 data request in which we had asked a question about
9 orders. And he made it clear, I believe in
10 testimony, what his position was there.

11 And the first -- again, the first two
12 sentences of the response, which were the sentences
13 that were ultimately read into the record, are
14 responsive to the cross question and to the
15 impeachment of his testimony.

16 The rest of it, again, goes to an
17 explanation for the basis of his proposal, but I
18 did not ask him for an explanation of the basis for
19 his proposal. I was simply asking him about
20 whether he had relied on any specific orders.

21 JUDGE CASEY: The objection is overruled. They
22 will be admitted. I'll note, though, that by

1 having the whole thing in, we can see whether or
2 not there was any reference to any other orders.

3 MR. ANDERSON: Thank you.

4 JUDGE CASEY: Could I have the numbers again?

5 MS. LUSSON: It's GCI City Exhibit 6.8 and GCI
6 City Exhibit 6.9.

7 JUDGE CASEY: Were there any other objections?

8 All right. They are admitted.

9 (Whereupon, GCI City
10 Exhibit Nos. 6.8 and 6.9 were
11 admitted into evidence.)

12 JUDGE CASEY: Thank you very much,
13 Mr. Smith. We will adjourn until 9:00 o'clock
14 tomorrow morning when we'll pick up on Cook
15 County's motion to compel and start with witnesses
16 at 9:30 a.m. the examiners would appreciate it if
17 the parties could write down their proposed
18 cross-examination time for the seven or eight
19 witnesses that we have scheduled for tomorrow.

20 (Whereupon the foregoing proceedings
21 were continued to Wednesday
22 February 21, 2001 at 9:30 a.m.)